Growth slows . . .

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pooled fund to make sure we were in compliance of all rules and regulations."

In March, Northern Trust set up a commingled futures fund called Equiff (equity index futures fund). It is designed to replicate the returns of the S&P 500 stock index by trading exclusively in S&P 500 futures, rather than the equities.

Its operations and objectives are similar to the other bank commingled futures funds.

Bankers Trust began LIFT, its liquid index futures trust, in July. State Street, the first with such a futures fund, set up SPIFF (stock performance index futures fund) in November 1982, not long after the S&P 500 futures began trading.

All the banks have described their futures fund as a twist on money market funds.

Like money market funds, the futures funds offer clients the ability to trade in and out of the fund daily; typically, a stock index fund offers only monthly liquidity.

But the futures fund returns, instead of being tied to interest rates like money market funds, are tied to the S&P 500 like the returns of conventional passive equity funds made up of the stocks of the S&P 500.

"It has the liquidity of a money market fund with the returns of a stock index fund," Lyle H. Davis, State Street's senior vice president and chief investment officer said recently.

The three banks now offering the commingled futures funds and pension funds have reported their returns closely track the returns of the S&P 500 stock index.

The popularity of the investment has grown rapidly (*Pensions & Investment Age*, Sept. 17).

The Financial Institutional Retirement Fund, White Plains, N.Y., has had as much as $13 million of its $600 million pension fund with State Street's SPIFF. In late November, it had about $8 million to $10 million in the futures fund, said Horace Caulkins, investment officer.

CIBA-Geigy Corp. has $15 million to $20 million in SPIFF and $10 million in SPIFF-plus, a fund that swaps between the S&P 500 futures and the S&P 500 stocks, holding one group or the other, depending on prices. In all, CIBA-Geigy has about 10% of its $350 million pension fund in the futures funds.

GTE Corp. officials said the firm has pension money in both State Street's and Bankers Trust's futures funds.

Mr. Davis said another State Street client used the fund for a day for $20 million.

"We've had another (pension) fund who was changing managers who parked the money, $50 million, in our (futures) fund for three months," he said. "That was (started) in mid-July. He got the August (market) rally." The client moved the money out of the fund several weeks ago, Mr. Davis added.

Northern, with $25 million in its futures fund in August, had expected to reach $100 million by the end of the year.

Northern's Mr. Ritchie said the suspension of new accounts, which began in October, likely will remain until mid-December, when a review of regulations is finished.

"We wanted to make sure we weren't doing anything improper," said Mr. Ritchie.

"We are investigating the whole panoply of regulation that might affect this fund. We probably are in compliance of the rules. But we don't want to (cause) our customers problems."

So far, he said, "We haven't come to any great conclusion of how we should proceed."

He said Northern has contacted the CFTC and banking regulators in Illinois and Washington.

"Prudent banking practices are of great concern to regulators," he

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Geller added. The criteria for using the options and futures is: "Can we own the stock in a more efficient way?"

Or, he said, BEA will buy stock index futures contracts when they are cheap compared to the market index.

Wilshire would construct any index to duplicate the market returns a pension client prefers, such as the Standard & Poor's 500 or the Wilshire 5000 stock indexes, Mr. Geller said.

To market the strategy, the two firms are targeting the 50 to 100 largest corporate and public pension funds.

Pension clients can open accounts with a minimum of $25 million or a maximum of $200 million. Mr. Geller said Wilshire and BEA together will charge a flat 35 basis points, or 0.35%, of assets managed.

MMI futures rocket

CHICAGO — Trades in the major market index futures contract have taken off more rapidly than the other stock market index futures, the Chicago Board of Trade reported.

The MMI futures, the newest of the stock market index futures, tracks the returns of the Dow Jones industrial average.

"Volume in the MMI futures contract has grown faster than any other futures contract during the first few months of trading," said Thomas P. Cunningham, chairman of the CBOT, where the MMI contracts are traded.

Cumulative volume in the MMI futures broke the 1 million mark Nov. 9, the CBOT said. In the 79 trading days since the contracts' introduction July 23, cumulative volume reached 1,010,781.

By contrast, the CBOT said the Standard & Poor's 500 futures, traded on the Chicago Mercantile Exchange, took 88 trading days to break the 1 million mark.

The New York Futures Exchange's contract of the New York Stock Exchange composite index futures took 129 days, the CBOT said. The Value Line index futures, traded on the Kansas City Board of Trade, took 386 days.

MidCon suggests 6 qualities to look for in evaluating pipeline companies.

Deregulation and competition create problems for some companies, opportunities for others. Here's how to pick the winners:

1. Is the company structured for flexibility? A flexible company can capitalize on change and uncertainty. MidCon is flexible by design. In many different areas, including supply, marketing, and cash flow. This approach–developed to deal with the uncertain Eighties–has already proved itself. Our fiscal 1984 net earnings set a record.

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4. Can it market gas at competitive rates? In the current environment, a company has to sell gas at competitive prices. MidCon's market includes deregulated areas where we gain share of

Growth of futures . . .

Continued from page 28

said. "If you are doing something imprudent or improper, it might result in liability for the bank."

Mr. Ritchie said Northern reviewed regulations before setting up Equiff. But, "as thoroughly as this (current review)? No," he said.

The Northern suspension doesn't affect pension funds with existing Equiff accounts, he said.

At Federal Express Corp., a Northern futures client, Jeffrey O. Drinan, manager of trust investments, said, "Their legal people indicated they have some problems.

"I don't understand the legal issue; I suppose they have to cover themselves. I'm surprised they didn't investigate this up front."

Federal Express, which put in $5 million shortly after the Northern fund opened, had $1 million to $2 million in the account the last week in November.

Mr. Ritchie, in an interview, wouldn't elaborate on the regulatory concerns of Northern.

At Bankers, Charles Marticornea, assistant vice president, said its fund isn't registered as a commodity pool operator, nor had it sought an exemption. "This issue of nonregistration is still an issue as far as I know," he added.

Mr. Marticornea declined to discuss the Bankers review, saying only, "There are other legal areas we are exploring that may give us leverage over our competitors."

An official of a $3 billion East Coast pension fund with several million dollars in one of the bank futures funds said of the issue, "This comes out of left field." He added, "It's a technicality, we understand."

A CFTC staff member working on the issue said it appears "if your intention is to use futures as a surrogate, then you have to register."

Speaking of the banks' futures funds, the staff member said, "The way I understand they want to use stock index futures definitely is not hedging. If they are offering investment purely in futures, they would be pool operators; that's exactly what they are doing."

Growth in trading of S&P 500 stock index futures contracts

Year	Volume
1982*	2,935,532
1983	8,101,697
1984	10,169,096**

* contracts began trading 4/21/82
** As of 10/31/84
Source: Chicago Mercantile Exchange

The official wouldn't comment specifically on the individual bank futures funds, but indicated only Northern has been in touch with the CFTC on the issue.

The official pointed out the issue "is extremely complicated. We are sort of struggling with how to articulate our rules."

The official added, "Now there is a lot of interest in the use of surrogate index funds to park cash, of not having to buy the underlying securities but of getting the market return. That is the single most controversial area of the use of futures, as a surrogate."

Since earlier this year, the CFTC has been reviewing whether to continue to apply commodity pool operator registration to the use of financial futures by pension funds and institutional money managers (*P&I Age*, April 30).

The CFTC has a proposal to exempt from registration trust departments, investment managers, insurance companies and pension funds. But they would only qualify for the exemption provided, in part, if they used futures only for "bona fide hedging" as defined by the CFTC.

Perry L. Taylor Jr., an attorney with the Chicago-based law firm of Katten Muchin Zavis Pearl & Galler, has said the proposed exemption will surprise many institutional futures users because "they didn't know they had to register in the first place."

Mr. Taylor's firm represents pension funds and money managers on futures matters.

At Goldman, Sachs & Co., Gary L. Seevers, vice president in the commodities department, said the proposed exemption is too limiting in the criterion allowing only hedging. Thus, he said, institutional users might still have to register as commodity pool operators.

"I believe a case could be made they don't have to register, but it is a gray area," said Mr. Seevers, who formerly worked in the CFTC.

Mr. Seevers said the prudent person regulations ought to be sufficient for institutional financial futures use; CFTC regulations would be redundant.

"It is an area of regulatory uncertainty and it is important to clarify and to clarify soon," Mr. Seevers added. "It could inhibit institutional use of futures."

William Anthony of the Chicago law firm Abramson & Fox, said, "I don't think the CFTC is likely to loosen these constraints," requiring futures funds to either register as commodity pool operators or seek an official exemption.

"It's hard to call it a hedging strategy if you don't own the S&P index or contemplate buying it in the future," he said.

There are efforts from many fronts to expand the type and use of futures.

As William J. Brodsky, the Chicago Mercantile Exchange's executive vice president, said recently, "If the food industry can offer 27 different types of granola bars, I see no reason the futures industry can't offer several different kinds of futures contracts and slug it out in the marketplace."

At Chase, Mr. Seff said, "We are waiting for clarification of the regulations on whether one has to register or not. Those clarifications aren't forthcoming."

Mr. Taylor, the attorney, said, "It's not clear whether they have to be registered as (commodity pool operators). What is clear is the (commodity pool) registration provisions were never intended to deal with that kind of investment vehicle. . . . (Futures funds) are designed not to speculate but to replicate another type of investment. What you have is a vehicle that falls between the cracks." ■

HOW TO SPOT THE CHAMPION AMONG THE THOROUGH-BREDS.

market by giving consumers the best rates available. Competitive pricing pays off in regulated markets, too. Example: Within nine months after becoming part of MidCon, Mississippi River Transmission Corporation cut its prices, increased its market share, and doubled its earnings.

5. Does it have a successful acquisition program? In our changing industry, a company that doesn't make successful acquisitions is likely to find itself in a static position. Since the fall of 1983, we've acquired over 2,900 miles of pipelines–in five states. The acquisitions expand our markets. Improve operating margins. Balance seasonal deliveries. And achieve economies of scale. Result: Each of our recent acquisitions added to our bottom line in 1984, even after acquisition cost.

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3. Strong cash flow.
4. Ability to make the right acquisitions at the right times.
5. Strong, experienced management.

For more information on our plans for the Eighties, contact Kathleen Vuchetich, Manager, Investor Relations, MidCon Corp., 701 East 22nd Street, P.O. Box 1207, Lombard, Illinois 60148. Or phone (312) 691-2557.

MIDCON CORP.

SEC shift may curb small-fund moves

By Mark Westerbeck

WASHINGTON — In a change of policy, the SEC won't assure two trust companies that their proposed commingled funds would comply with securities law if the companies don't register as investment advisers.

The change may reduce the investment choices of small pension plans that are most likely to rely on the commingled funds offered by the independent state-chartered trust companies.

Frank Russell Co. established the model trust company to service small and medium-sized pension funds. The Frank Russell Trust Co. offers those funds a selection of commingled funds managed by groups of managers selected by the Frank Russell Co., a top investment management consulting company.

The development of the concept was important to small pension funds because it gave them access to the expertise of consultants such as the Russell Co., whom they could not afford to hire directly. It also gave them access to a portfolio run by a diversified group of highly regarded money managers they otherwise would be too small to employ.

The Securities and Exchange Commission signaled the change in policy by refusing to grant "no-action" letters to Bankers United Trust Co. of San Antonio, Texas, and Franklin Trust Co. of San Mateo, Calif., which planned to offer collective investment funds.

This is a distinct change from a precedent-setting no-action ruling given to the Frank Russell Trust Co. just two years earlier. That position, reiterated in similar, subsequent letters, has allowed state-chartered trust companies to operate without registering under the Investment Company Act of 1940, the Securities Act of 1933 and the Securities Exchange Act of 1934.

The commission has changed its focus for granting no-action letters from whether a trust company is "maintaining" collective trust funds as if it were a bank to the

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Late news

Assets liquidated

CHICAGO — To eliminate entirely its unfunded liability, the United Food & Commercial Workers International Union multiemployer pension plan liquidated most of its $735 million in pension assets to buy $600 million in annuities from Metropolitan Life Insurance Co. for active and retired participants.

Trustees also set up a new defined benefit plan unencumbered

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Pensions & Investment Age

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McLaren ousted as California chief

By Steve Hemmerick

SACRAMENTO, Calif. — Trustees of the California State Teachers' Retirement System have dismissed their chief executive officer, C. Michael McLaren, from his $83,500-a-year job.

The reasons for the dismissal are not known. The trustees declined to comment on the 10-0 vote; Mr. McLaren said he never was given a reason.

But the dismissal didn't delay the hiring Dec. 12 of the fund's first permanent outside bond managers, something trustees had waited almost 18 months to do.

Hired were: Loomis, Sayles & Co. Inc., Boston; Manufacturers Hanover Investment Corp., New York; Scudder, Stevens & Clark, San Francisco; Miller, Anderson & Sherrerd, Bala Cynwyd, Pa.; T. Rowe Price, Baltimore; Stein Roe & Farnham, Chicago; and Pacific Investment Management Corp., Newport Beach, Calif.

The new managers will share $2 billion of the $13 billion in assets held by the system. The trustees declined to say how much each manager will get.

In another development, officials of Frank Russell Trust Co., Tacoma, Wash., said the consulting firm decided not to seek renewal of its one-year contract with the pension fund to help select managers.

Robin Miller, assistant chief executive officer for the retirement system, said the decision to discontinue the relationship was "mutual." The contract expired Dec. 5.

The dismissal of Mr. McLaren had to be a blow to the retirement system. He was the first permanent piece in the structure that the teachers' system had put together after a divorce from the internal investment management operations of its sister fund, the California Public Employees' Retirement System, in July 1983.

Robert F. Roberts, deputy chief executive officer, has been named interim chief executive officer. Mr. Roberts is the fourth chief executive officer, interim or not, the teachers' system has had in 12 months and has said he will ask an executive search firm to find a successor to him.

Michael Thome, a longtime chief executive officer for the teachers' system, said he was forced into retirement by the trustees last December, and Rick Cohen, an interim chief executive officer, left in August.

Until August, Mr. McLaren had been executive director of the Minnesota Public Employees' Retirement Association, and served on an advisory committee that helped select some managers for the Minnesota State Board of Investment, according to an aide to Minnesota State Sen. Donald Moe.

Sen. Moe is chairman of a Minnesota Senate Governmental Operations Committee that was set up to examine the events surrounding the appointment of Mr. McLaren's

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Harcourt Brace, AMF

2 terminate plans

By Chuck Paustian and Mark Westerbeck

Two more companies — Harcourt Brace Jovanovich Inc. and AMF Inc. — are terminating their pension plans and recovering large percentages of the assets.

Harcourt Brace Jovanovich will recoup more than two-thirds, or about $50 million, of its $74 million pension plan.

AMF will recover about half of the approximately $200 million in its pension plan for salaried employees.

Both terminations are effective Dec. 31.

J. William Brandner, senior vice president, treasurer and chief financial officer at Harcourt Brace Jovanovich, said the company will turn over the excess assets to a newly established employee stock ownership plan. The ESOP, in turn, will use the $50 million to purchase newly issued stock from the company.

The publisher's stock was trading at 43¾ Dec. 19. At that price, the ESOP could purchase 1,142,857 shares. The company now has 9,390,000 shares outstanding.

In a letter to plan participants, the publishing company said the excess assets would not be used for "corporate financing purposes." The same letter said cash derived from the sale of the new stock would be used to "reduce the company's long-term debt and to expand its present operation."

In AMF's case, the cash is designated for a number of possible purposes, including acquisitions, development of new products and reduction of debt.

"There's some liquidity there that can be put to better use," said Arthur M. Warren, AMF vice president and assistant treasurer. "We want to take advantage of the assets without hurting the employees."

Mr. Brandner said the Harcourt

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Johannesburg, South Africa: Debate grows over investment in companies that do business there.

Investments by public funds fuel debate on South Africa

By Joel Chernoff

WASHINGTON — While demonstrations against South Africa's apartheid policies are stepping up across the country, actions involving public pension funds are adding more fuel to the debate.

In Eugene, Ore., a state circuit court judge held that requiring the Board of Higher Education endowment fund to divest itself of $3 million in stocks issued by companies that do business with South Africa would violate the state's "prudent man" rule.

"It's a cold shower of reality for this whole heated thing," said Roy Schotland, a Georgetown University Law Center professor who testified against divestiture.

Meanwhile, the New York City Employees Retirement Systems submitted shareholder resolutions to 19 U.S. firms that do business with South Africa, including General Signal Corp., Martin Marietta Corp. and General Motors Corp.

Most of the resolutions would require the companies to adopt the Sullivan Principles' equal employment opportunity guidelines, though a few would require ending sales of equipment to South Africa military police or government

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A.H. Robins ups equity with realty

By Joel Chernoff

RICHMOND, Va. — A.H. Robins Co. Inc. has restructured its $60 million pension fund, hiring its first real estate manager, according to Herbert Nichols, director of employee benefits.

Mr. Nichols views the change as a more aggressive equity posture because he considers real estate an equity investment.

With stocks now comprising 50% of plan assets and real estate equity accounting for 15%, he said the Robins fund now has 65% committed to equities.

Previously, the fund had a maximum equity exposure of 60%, but actual practice was closer to 50% invested in stocks, Mr. Nichols said.

Among the manager changes resulting from the restructuring, CFB Advisory Corp., a unit of Central Fidelity Banks Inc., Richmond, will run $15 million in equities, down from the $32 million it had been allocated.

Of the $17 million left from CFB, Trustee & Investors Co. Inc., Boston, was given $15 million to run in equities. The remaining $2 million of CFB's previous commitment was placed in Prudential Insurance Co.'s PRISA fund.

In addition, $4.5 million in new

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Behind the scenes in Hollywood

Funds invest in films

By Steve Hemmerick

The Oregon Public Employees' Retirement System has made a $10 million investment, and the Eastern Air Lines Variable Retirement Plan for Pilots has made a smaller one, in a limited partnership that will help finance 10 motion pictures.

One industry source said that while he believes there might have been previous pension fund investments in the film industry, he could not think of any. The source said he does not believe any other pension funds are involved in the current deal.

The investments were made with the Embassy Film Associates partnership, which will provide financial backing for motion pictures from Embassy Pictures, which is owned by Embassy Communications, Los Angeles.

The first picture that has received backing from the partnership is called "The Sure Thing." It is expected to be released soon and was directed by Rob Reiner, who rose to fame in the television series, "All in the Family."

But the major film receiving financial backing from the partnership, according to sources, is the film version of the musical play, "A Chorus Line." It is expected to be released around Christmas 1985.

Embassy Communications, a privately held company, is owned by Norman Lear, former producer of "All in the Family," and Jerrold Perenchio, who built his reputation as a sports promoter.

Other Embassy Communications subsidiaries, which include Tandem Productions and T.A.T. Communications Co., produce television shows and video cassettes.

James George, investment manager for the Oregon fund, said the amount invested in the partnership is 0.25% of the fund's $4 billion assets, and is considered a venture capital investment by the fund.

Mr. George said his fund is trying to increase its investment in venture capital to produce up to double normal market returns in the long term. He said the fund has about $65 million committed to venture capital, and hopes to have $200 million invested by the end of 1985.

According to a spokesman for the Eastern pilots' fund, there were a number of limited partners committing capital to Embassy Films, but the names were not immediately available.

The spokesman said the fund didn't use the words "venture capital" in connection with the investment because "we are not too keen on venture capital." He did not comment further.

Sources estimated the total investment by limited partners in the partnership at $50 million to $100 million.

Wilshire Associates, Santa Monica, one of two consulting firms to the Oregon fund, was told of the investment in Embassy Films, according to Clay Myers, Oregon state treasurer. No one from Wilshire Associates would comment.

According to a spokesman for Embassy Communications, the average film costs between $15 million and $20 million, and can have returns of up to $500 million.

No information was made available on the amount or percentage of each film cost that would be paid by the partnership, nor was information available on how the partnership would share in the profits.

Some recent Embassy releases include "This is Spinal Tap," "Eddie and the Cruisers," "Fanny & Alexander" and "Ballad of Gregio Cortez." A company spokesman declined to say how well the films had done.

According to the trade paper "The Hollywood Reporter," Embassy Pictures had no films in the paper's weekly list of the top revenue grossing films for Oct. 19 to Dec. 6.

It did have one film among the top grossing films during the week of Oct. 12 to Oct. 18, the movie called "The Bear." That movie's total gross revenue, as of Oct. 18, was $2,687,148.

An analyst for Davis Skaggs/Shearson American Express, San Francisco, said he is one of the few analysts that follow Embassy closely. The analyst said he asked "various people" about whether to answer some questions about the

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Contribution, advisers cut

By Barry B. Burr

WEST POINT, Ga. — Butting up against the full-funded provisions of the Internal Revenue Service, Westpoint Pepperell Inc. is cutting its annual pension contributions by more than half to $2.2 million and is restructuring the bulk of its pension investments.

Marshall Morton, treasurer, said the fund is replacing the four managers running most of its $69 million in pension assets with the mutual-fund consulting services of William W. Lowry & Associates, Atlanta.

The fund is dropping two balanced managers, Trust Co. of Georgia, Atlanta, and Hibernia National Bank, New Orleans, and two equity managers, MacKay-Shields Financial Corp. and Brundage Story & Rose, both of New York.

The $54 million they ran will go to Lowry, as well as another $6

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Foundation in Monks' future

WASHINGTON — Robert Monks likely will serve in a top post at Lambert Brussels Corp., as well as launch a foundation to handle institutional investment issues, after he leaves his U.S. pension administrator's post Jan. 20.

Lambert Brussels, a New York-based holding company, owns, on a fully diluted basis, 36% of Drexel Burnham Lambert, the privately held investment banking firm, according to Drexel's 1983 annual report.

Mr. Monks is the American partner of Lambert Brussels, whose other partners are the former French owners of Banque Paribas (Suisse), which was nationalized several years ago by the French government. Sources said Mr. Monks is up for the job of chairman of the executive committee.

Lambert Brussels has three wholly owned subsidiaries: a financial unit, a holding group and a real estate unit.

Mr. Monks said he doesn't think it is appropriate to comment on his plans at this time, although he has said he plans to stay in Washington. He acknowledged he might try to establish a foundation to deal with institutional investment issues.

He didn't specify the foundation's functions, but said it might form the framework for a self-regulatory organization that would take the first crack at prohibited transaction requests, a concept he advocated before the National Pension Forum. That proposal, so far, has met with a mixed response.

The foundation also could provide a basis for a shareholder council for private pension funds, similar to that being assembled for public funds by California State Treasurer Jesse Unruh, Mr. Monks said.

It is still far from certain who might replace Mr. Monks at the Department of Labor. Sources said Mr. Monks has pushed the candidacy of Janet Brown, a special assistant at the department whom the administrator brought on board from the Office of Management and Budget.

Mr. Monks said he did not advance Ms. Brown's name, but that she "would be a fine successor."

Some observers question whether Ms. Brown has adequate pension experience and political clout to obtain the job.

In any event, many think a new administrator will not be named until the future of Labor Secretary Raymond Donovan, who is under indictment, is clarified. Sources said action at the Labor Department is virtually at a standstill. ■

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Late news

Continued from page 1

by the past service liabilities, and so far have contributed $50 million.

Goldman, Sachs & Co. oversaw the liquidation of about $500 million in stocks and bonds and $100 million in cash equivalents, which financed the annuities.

Virginia loses director

RICHMOND, Va. — Robert Vandell, director of investments of the $3.6 billion Virginia Supplemental Retirement System, will return to the University of Virginia's Colgate-Darden School of Business this January. Mr. Vandell, who was the third director of investments in 1984, will continue to assist the fund on a part-time basis. Timothy Barron, assistant director of investments, is expected to succeed him.

Harris Corp. hires

MELBOURNE, Fla. — The $350 million Harris Corp. retirement plan hired two real estate managers, replacing Prudential Insurance Co. of America's PRISA fund, Newark, N.J., said John Small, manager of benefits and retirement plans-finance.

As of Jan. 1, Harris will place $15 million each in the participating mortgage fund run by Aetna Life & Casualty Co., Hartford, Conn., and the special situations investment-real estate fund managed by J.P. Morgan Investment Management Inc., New York.

DOL exemption asked

DALLAS — The pension plans of American Petrofina Inc. and Cosden Oil & Chemical Co., its subsidiary, have applied to the Department of Labor for an exemption from prohibited transaction provisions of the Employee Retirement Income Security Act that would allow the plans to continue leasing a Texas petroleum pipeline to Cosden. The pipeline has been owned jointly by the pension plans since 1963. The lease income is distributed to both plans in proportion to their ownership.

Northern Trust hired

CHICAGO — Santa Fe Southern Pacific Corp. has selected Northern Trust Co., Chicago, as master trustee effective Jan. 1. This is the first step in merging the pension assets and restructuring the investments of the two predecessor companies.

Northern Trust, already the master trustee for Santa Fe Industries Inc.'s $256 million in pension assets, also will take custody of Southern Pacific Co.'s $295 million in pension assets from its master trustee, Wells Fargo Bank, San Francisco.

Xerox drops adviser

STAMFORD, Conn. — Xerox Corp. dropped Eberstadt Asset Management, New York, as junk-bond manager after the firm was folded into Alliance Capital Management, New York, at the end of November.

Xerox is giving the account to W.R. Huff Asset Management, New York. The new money management firm was formed by former Eberstadt fixed-income manager William Huff.

PBGC files lawsuit

MIAMI — The Pension Benefit Guaranty Corp. has filed suit in U.S. District Court here seeking to terminate two small, but underfunded, pension plans covering pilots and other employees of the Air Florida System Inc.

According to the complaint, Air Florida did not meet minimum funding standards for the plans in 1982 and 1983, and the PBGC could face more losses unless the plans are terminated.

The two plans have assets of about $460,000, most of which are unpaid employer contributions.

PBGC attorneys estimate the agency could have to pay between $600,000 and $750,000 in guaranteed, but unfunded, benefits.

Bankruptcy attorneys representing Air Florida, which filed for bankruptcy in July, could not be reached for comment.

Reported dedications and immunizations in 1984

Pension fund	Type of bond portfolio	% annualized yield (a)	$ mil. (a)	% pension assets (b)	Manager of portfolio
Allis-Chalmers Corp.	dedication	14.66%	$ 114	39%	Jennison Assoc. Capital Corp.
American Airlines Inc.	dedication	13.00	100	55	in-house (f)
American Standard Inc.	dedication	13.50	NA	NA	NA (c)
Ameritech	dedication	11.50	2,400	38	Natl. Invest. Services of America Inc. (d)
Armco Inc.	immunization	13.46	350	29	Armco Investment Mgmt. Inc.
Bethlehem Steel Corp.	dedication	14.00(e)	700	30	in-house (c)
Brockway Inc.	immunization	14.20	40	28	Manufacturers Hanover Investment Corp.
Ceco Corp.	immunization	14.20	10	13	Chase Investors Management Corp.
Chrysler Corp.	dedication	14.00(e)	1,100	69(h)	Not selected yet (c)
Colt Industries Inc.	dedication	14.20	300	80	in-house (f)
Dayton Hudson Corp.	immunization	14.00	16	23	First Wisconsin/First Chicago (i)
Farmland Industries Inc.	dedication	12.90	42	23	Scudder Stevens & Clark Inc.
GATX Corp.	dedication	13.80	NA	NA	Minton/Newbold's Capital Mgmt.
Household Int'l. Corp.	immunization	NA	46	10	Lincoln Capital Management Corp.
Johnson Controls Inc.	immunization	14.00	4	16	First Wisconsin Trust Co.
Masonite Corp.	dedication	NA	15	28	First Chicago Investment Advisors
McGraw-Edison Co.	immunization	14.00	43	32	Morgan Guaranty Trust Co.
Mobil Oil Corp.	NA	NA	NA	NA	NA
Natl. Intergroup Inc.	horizon matching	15.00	216	27	Alliance Capital Management Corp.
Ohio Casualty Group	immunization	13.00(e)	20	25	in-house
Peabody Holding Co.	immunization	13.99	11	22	First Wisconsin Trust
PPG Industries Inc.	dedication	NA	80	50	Pittsburgh National Bank
Stanley Works	immunization	13.00(e)	14	10	BEA Associates Inc.
Teamsters Western	dedication	12.00(e)	1,777(g)	84(h)	Prudential Insurance Co.

(a) for portfolios done in 1984
(b) includes any earlier dedications and immunizations
(c) set up by Salomon Bros. Inc.
(d) set up with Goldman, Sachs & Co.
(e) more than
(f) set up by First Boston Corp.
(g) includes $277 million done separately at 13%
(h) plans 100%
(i) each has $8 million
NA not available

Source: *Pensions & Investment Age*

Funds commit more than $7 billion in 1984

Dedications, immunizations soar

By Barry B. Burr

In 1984, Pension funds prescribed massive doses of immunization and dedication to reduce corporate pension expense and prevent volatile investment returns.

Pensions & Investment Age reported new dedicated and immunized bond portfolios amounting to $7.498 billion through the first half of December, all confirmed by pension funds. But the figures tallied by *P&I Age* only touch the total, because amounts were not disclosed for many of the actions, and many more might not have been reported.

The technique appeared to be a savvy investment decision, with the bond portfolios producing yields in the teens for many pension investors.

National Intergroup Inc.'s $216 million horizon matching immunization has a yield of 15%; Allis-Chalmers Corp.'s $114 million dedication, 14.66%; Brockway Inc.'s $40 million immunization, 14.2%; Ceco Corp.'s $10 million immunization, 14.2%; and Colt Industries Inc.'s $300 million dedication, 14.2%.

The use of the technique showed little sign of slowing — despite falling interest rates in the latter part of the year.

What lies ahead for dedications and immunizations in 1985 is in dispute. Even those institutional advisers whose interest rate forecasts agree, debate the impact of further drops — however slight — in interest rates in the coming year.

Many think it's possible pension funds will continue to set up dedications and immunizations with the same fury.

Greenwich Research Associates, Greenwich, Conn., through a survey of Fortune 500 corporations that have defined benefit pension plans, found there is growing interst in the bond portfolios.

It found 19% of the corporations have dedicated portfolios and 9% have immunized portfolios. Seven percent of the corporations are planning to set up one, or the other, or both.

In 1984, the amount pension funds put in dedicated and immunized portfolios was huge, as the accompanying chart of actions reported in *P&I Age* illustrates. Amounts were undisclosed for several more of the moves, and according to pension advisers, many more dedications and immunizations went unreported.

The bond portfolios typically save money for corporations, provide cash for other uses, and translate into revenue on the corporate income statements.

Bethlehem Steel Corp., for instance, announced its $700 million dedication will save the corporation $50 million in annual pension expense.

American Information Technologies Corp. figures its $2.4 billion dedication will cut its projected annual pension contribution by $60 million.

For multiemployer pension plans, dedications and immunizations might provide relief from the thorny problem of "withdrawal liability," arising from unfunded pension liability.

The Teamsters, Western Conference is contemplating dedicating its entire $5.1 billion in pension assets. By doing so, it estimates it could eliminate its $1 billion unfunded pension liability by 1986.

It already has $4.3 billion in dedicated bond portfolios, including the $1.777 billion it dedicated in 1984.

Investment bankers, who design many of the bond portfolios and execute the trades, said the number of dedications and immunizations is not known.

However, their comments suggest the technique is popular among pension funds.

"There's no question there's significant broad-based activity in dedication and immunization," said Martin L. Leibowitz, managing director, Salomon Brothers Inc. (*P&I Age*, Sept. 17).

"This business has exploded in the last year and a half as interest rates have risen," said T. Barrett Moore, vice president of fixed-income research with the First Boston Corp.

But lately, interest rates have fallen.

In November, the Western Conference Teamsters' $1.5 billion dedication received a yield of about 12%.

In December, Ameritech's dedication received a 11.55% yield.

By comparison, earlier in the year Chrysler Corp.'s $1.1 billion dedication received about 14%. Last February, the Western Conference Teamsters set up a $277 million dedication at 13%.

"With interest rates dropping, you could see an acceleration in dedications," said John Rutledge, economist and chairman of the Claremont Economics Institute, Claremont, Calif. That is because pension funds might hurry to take advantage of interest rates before they drop further.

"Sure, it will dull the advantages as interest rates butt against actuarial rates," Mr. Rutledge added. "Actuarial rates are still on the way up."

Others take a different view of the effect of declining interest rates.

"If interest rates come down, actuarial rates will also come down," said David H. Silvern, director of research at Capital Management Sciences Inc., Los Angeles.

The portfolio technique allows pension investors to lock in returns with a large degree of certainty. The returns characteristically are higher than the actuarial assumed rate of return, a conservative figure used, in part, to calculate the contributions needed to fund a pension plan.

Dedication and immunization are different strategies, although their results are similar.

Dedication also is known as cash-flow matching.

It involves matching assets to liabilities by purchasing bonds with cash inflows from coupon interest and maturing principal that closely match the periodic outlays required by the fund to pay benefits.

By using the income as soon as it is received, the pension fund eliminates the risk of not being able to reinvest the income at the same rate, or at a higher rate, than the portfolio was set up to yield.

Immunization is also known as duration matching.

Its proceeds aren't specifically matched to pay periodic liabilities. Instead, it matches the duration of the bonds with the duration of a certain amount of liabilities. A bond duration measures how soon a bond repays an investor.

There are many variations of dication and immunization. One, known as horizon matching, combines the two techniques.

Martin D. Kahn, vice president at Ronald Karp Associates, Summit, N.J., who worked on the immunization for Brockway, warns of comparing yields of dedications with those of immunizations.

The yield, in part, reflects the credit quality and liquidity of the bonds, and the pattern of the cash flows needed to pay benefits. ■

Battle . . .

Continued from page 4

Labor subcommittee hearing, that companies could use the procedures, as long as certain safeguards were taken to protect participants' benefits.

Sen. Howard Metzenbaum, D-Ohio, and Rep. Edward Roybal, D-Calif., attacked the guidelines as inadequate and the administration as insensitive. The congressmen's continued attention to the area and increased public attention almost ensure something will be done to tighten the rules, experts say.

The Treasury Department also thinks there still is too much opportunity for abuse, and its tax reform proposal would impose a 10% excise tax on recaptured assets, as well as normal income tax payments.

Other activities made 1984 perhaps the busiest year for pensions since ERISA was passed 10 years ago. One of the most exciting sagas in 1984 was the appointment of Robert Monks as the pension administrator.

While he is now a lame duck, with his departure scheduled for Jan. 20, he made major strides in giving the pension program a newfound independence within the Department of Labor and reorganizing its structure.

He challenged pension executives' basic assumptions of what is an acceptable rate of return, and encouraged more investments in alternative, pooled vehicles.

Yet his No. 1 priority to encourage pooled vehicles, a proposed definition of plan assets, apparently is languishing at the Office of Management and Budget. The proposal faces opposition by the venture capital industry, which could mean the proposal's doom even if Mr. Monks were to stay.

A new chief also came to the Pension Benefit Guaranty Corp. Charles C. Tharp assumed the post of executive director on Feb. 1, succeeding Edwin M. Jones. Under Mr. Tharp, the agency revamped the investment of its $1.1 billion in assets, adding new equity, fixed-income and real estate managers.

But much of the agency's effort was devoted toward an unsuccessful attempt to pass an increase in the annual single-employer plan premium, and reform legislation.

Despite assurances that a bill would be passed this year, the legislation was dragged down by controversy, especially after organized labor and the ERISA Industry Committee pulled their support last spring.

The issue was complicated further by Sen. Metzenbaum's efforts to tack on an amendment requiring plan participants to share in reversions from terminated overfunded plans.

The agency likely will return with a proposal to increase the annual premium to between $7 and $9 per participant, sources said. The current premium is $2.60.

In addition, the agency might float a streamlined bill that would avoid some of the provisions that antagonized business, such as the rule requiring employers to be contingently liable for five years after transfer of an underfunded plan to another company.

Also, Congress passed major pension legislation in 1984.

Originally sponsored four years ago by Rep. Geraldine Ferraro, D-N.Y., and Rep. Bill Clay, D-Mo., the Retirement Equity Act generally will improve retirement benefits for women by lowering the minimum participation age to 21 from 25, liberalizing break-in-service rules and providing improved information to participants.

Rep. Ferraro also had promised to introduce a follow-up bill that would liberalize vesting, integration and portability rules, but had failed to do so before her term expired. ■